



A Message from Retirement Board Chairman, Jody B. Olson

## Poor investment markets mean PERSI contributions will gradually return to 1997 levels

Since August 2000, the US has experienced the worst equity market since the 1930s, both in duration and in depth. The previous record holder, the 1973-74 bear market, lasted 21 months, and the S&P500 return dropped 42.6%. This bear market has lasted 27 months so far, and through early October the market was down 45%.

Such abysmal markets have,

naturally, had a negative effect on PERSI's funding levels. In Fiscal Year 2002 (ended June 30, 2002), PERSI had a -7.1% return. The year before, we had a -6.1% return. Just three years ago, PERSI was 116% funded and was able to provide you with gain sharing. As of June 30 2002, PERSI was 84.9% funded.

Your trustees pursue a 100% funded status, and are required by

law to maintain no greater temporary unfunded liability than can be amortized in 25 years or less. As of June 30, 2002, the unfunded liability was 39.2 years. For months the Board studied alternatives for managing the funding level. We also sought and received input and recommendations from many PERSI stakeholders including the Public

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## Surveys say.....

### PERSI provides high level of service at low cost

Your PERSI Board of Trustees and staff feel that it is important for PERSI to provide you with a high level of customer service while carefully monitoring our administrative and investment expenses. We've been confident of our ability to do this; and now, by comparing our services and costs with those of similar US pension systems, we have evidence that PERSI does indeed provide a high level of service at a low cost. PERSI's administrative costs are low, and that the system's funds are used wisely.

#### What are PERSI's administrative costs?

Less than one-half of one percent (0.50%) of PERSI assets are used in

the operation of both the PERSI Choice and Base plans. This includes all investment expenses including money management fees, consulting fees, trust, custody and recordkeeping, as well as salaries of PERSI staff and operating expenses. This also includes fees for education programs, actuarial valuations, outside auditors, legal counsel and other professional consulting services.

#### How does this compare to other public pension systems?

PERSI has access to several surveys that compare expenses and staffing among public pension systems in the US.

The 2001 Public Pension

Coordinating Council survey shows:

- The average public pension system in the US has 2.35 staff members per 1,000 active members. PERSI has one staff member per 1,000 active members.
- Public retirement systems of similar size average 97 staff members. PERSI has 62 staff members.
- The average annual administrative expenses (not counting investment expenses) for systems of similar size is \$7.5 million. PERSI's

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## Contribution Rate Changes

	Until 10-31-97	Current Rates	7-1-2004	7-1-2005	7-1-2006
General Member Employer Rate	11.61%	9.77%	10.39%	11.00%	11.61%
<b>General Member Employee Rate</b>	<b>6.97</b>	<b>5.86</b>	<b>6.23</b>	<b>6.60</b>	<b>6.97</b>
Police/PERSI Firefighter Employer Rate	11.85	10.01	10.63	11.24	11.85
<b>Police/PERSI Firefighter Employee Rate</b>	<b>8.53</b>	<b>7.21</b>	<b>7.65</b>	<b>8.09</b>	<b>8.53</b>

Employee Retirement Coalition, Assoc. of Idaho Cities, Idaho Assoc. of Counties, Division of Human Resources, Division of Financial Management, Joint Finance & Appropriations Committee, Retired Teachers Assoc., and others. Thank you to all for your help.

My fellow Board members and I voted at our November 2002 meeting to gradually increase member and employer contribution rates back to 1997 levels. Effective July 1, 2004, the rate you contribute to PERSI will increase from 5.86% to 6.23% of pay (Police/PERSI Firefighters will pay 7.65%, up from 7.21%). Employer rates will increase to 10.39%, up from 9.77% (10.63% for police/fire employers, up from 10.01%). All the rates will increase again July 1, 2005 and 2006 (see chart).

**But, even when all of these increases are in place, your contribution rates will be the same as they were in 1997.** Until 10-31-1997, the rates were 6.97% for general members (8.53% for police/firefighters), 11.61% for employers (11.85% for police/fire employers). November 1, 1997, PERSI lowered contribution rates because investments were doing so well.

Retirees will also feel the effects of these poor investment markets. For the first time in 13 years, retirees will

not receive a discretionary Cost of Living Adjustment (COLA) to their retirement benefit. They will receive a mandatory 1% COLA required by law, but will not receive an additional amount that is at the discretion of the Board. Each year, the COLA may be equal to the Consumer Price Index or 6%, whichever is less. This year the CPI is 1.8%, but retirees will not be receiving the discretionary 0.8% allowed because this would add \$21 million to PERSI's unfunded liability.

It is not unusual for a retirement system's funding level to fluctuate. In the early 1990s we had a similar funding level to what we have now. In the late 1990s and 2000 we were over funded which is why we were able to provide gain sharing.

Having a funding deficit does not mean that PERSI is in bad shape. All public and private pension funds fluctuate between being under and over funded. There is never a case of "we're 100% funded so we're done." It is a moving target. In 2000 we were 116% funded. Our drop from being over funded to being under funded was caused by these few exceptionally bad years of the stock market. History shows us that drops like this are to be expected, and we should gradually come back out of it.

In my 15 years on the Board, I have ridden these ups and down with you. At all times, the Board is focused on its duty to provide solid funding for your retirement benefits. Your benefits are secure and guaranteed. ♦

**I D A H O**

**PERSpectives**

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## You may contribute more to the Choice Plan 401(k) in 2003

You may now increase your contributions to the PERSI Choice Plan 401(k). The 2003 contribution limit is \$12,000 (or, if you are least age 50 during the year, \$14,000).

You may contribute any percent of your pay until you reach the limit. See your payroll office to complete a new Salary Reduction Agreement or to change your deferral. ♦

# PERSI provides high level of service at low cost

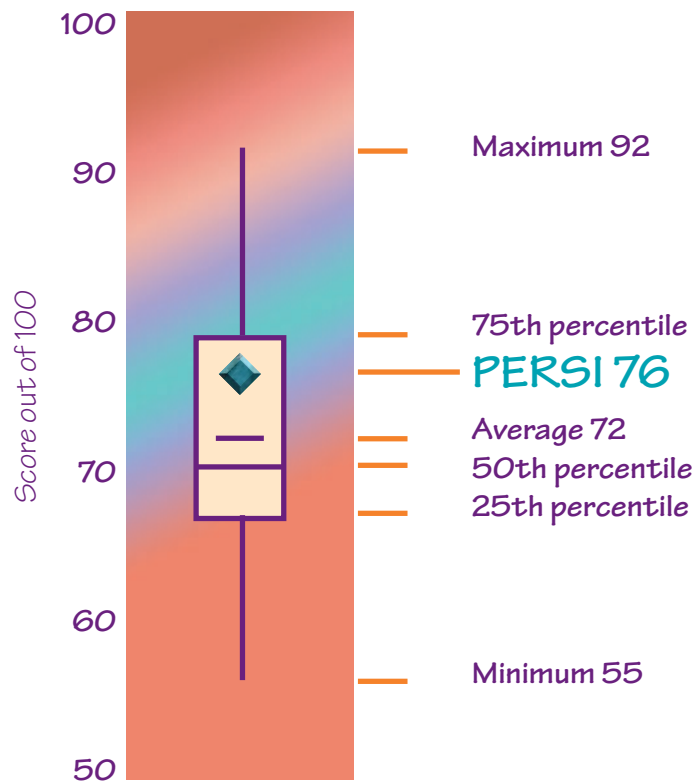
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administrative expenses are about \$4.3 million.

Another survey, by Cost Effectiveness Measurement Inc., compares productivity and costs among 30 larger US public pension systems. Its April 2002 survey shows:

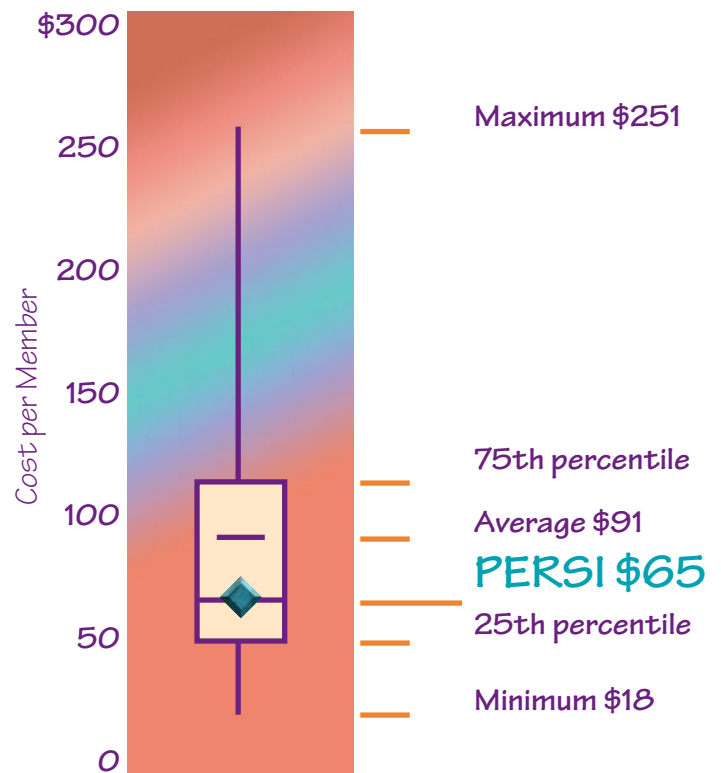
- Comparing the Total Cost per Active and Retired member, PERSI's costs were \$65 per member with the average among the system being \$91 per member. Excluding major projects from the comparison shows PERSI's costs at \$59 per member and the average system at \$63 per member.
- In comparing service levels provided for the costs, PERSI has a score of 76 points (on a 100 point scale) while the average system has 72 points. This means that PERSI members receive a higher level of service for less cost.
- In comparing the productivity or workload among the systems, the survey shows PERSI's workload at 132% of average (i.e. 100% equals the average so PERSI is 32% above the average). Some examples of these workloads:
  - Estimates: PERSI did 8,917 retirement estimates for members last year. This is 1.7 times higher than the average for other systems.
  - Phone Calls: PERSI handled 86,750 member phone calls last year. This is 1.3 times higher than other pension systems.
  - Communications: During the year, PERSI gave 278 special presentations to members. This is 9 times higher than other systems.
  - Refunds: PERSI paid 6,589 refunds last year for 7.7% of our total membership. This is 2.3 times higher than other systems.
- Overall, this survey shows that PERSI provides a greater amount of service to members with a smaller staff at a lower cost. ♦

## PERSI's Service Level vs. Peer Pension Systems



Source: Cost Effectiveness Measurement Inc. April 2002

## PERSI's Total Cost per Member vs. Peer Pension Systems



Source: Cost Effectiveness Measurement Inc. April 2002

# Choice Plan Fund Transfers and Future Allocation Changes

When you move money or make fund allocations in your Choice Plan 401(k) account, changing **current** funds and **future** funds **requires two separate actions**. Transferring your current funds from one investment to another is one transaction. Allocating where you want your future contributions to go is another transaction. A Fund Transfer moves the money you currently have in your Choice Plan from one fund to another. Future Allocation Changes tell Mellon HR Solutions, our recordkeeper, where you would like to invest contributions from now on. The reason these are two separate steps is that while some people only want to transfer current funds, others want to allocate both current and future funds.

**Example:** If you now have \$1,000 in the PERSI Total Return Fund (TRF), but want to invest that 50% in the TRF and 50% in the SEI Stable Value Fund, and also want future contributions to go into both funds, you must do two things. You must do a Fund Transfer of 50% of your current funds out of the TRF into the SEI Fund, AND you must change Future Allocations to 50% TRF and 50% SEI. If you only do the current fund transfer, 100% of your future contributions will continue going to the TRF.

Making these changes is easy. You may make the changes via the Web or phone.

## Fund Transfers via the Web site

- 1 Go to [www.persi.state.id.us/choice.htm](http://www.persi.state.id.us/choice.htm) and click "Choice Plan Personal Account Information."
- 2 Enter your Social Security Number and PIN.
- 3 Click "Account Transactions" on the tan menu bar near the top of the page.
- 4 Read "Important Notice" and click on "Agree."
- 5 Click "Transfer Existing Balances" on the left side of the page.
- 6 Do the following steps for each fund you want to transfer money from:
  - Step 1: From the drop down box, choose the fund you want to transfer money from. It will show you the percent of this fund eligible for transfer. Do not change anything in this percentage box.
  - Step 2: From the list of Fund Names under "How to Redirect Balance," enter the percent you want to transfer out of that fund – 1-100%.
  - Step 3: Choose the fund(s) you want to transfer into and enter the percent for each new fund. This must total 100%. Example: If you are transferring 30% out of the SEI fund, and want half of that 30% in the PERSI TRF and half in the Brandes Fund, enter 50% for TRF and 50% for Brandes, not 15% for each.
- 7 Click "Proceed."
- 8 Enter your daytime telephone number.
- 9 Click "Confirm." A confirmation will appear that you may print. Mellon will also mail you a confirmation.

## Change Future Allocations via the Web site

If you haven't already done so, follow steps 1 - 4 above.

- 5 Click "Change of Future Savings Allocations" on the left side of the page.
- 6 Enter the percent you want to go into each of your fund choices. (Even if you are just changing one fund, you will need to re-enter the percent for all the funds because all the boxes must total 100%.)
- 7 Click "Proceed."
- 8 Enter your daytime telephone number.
- 9 Click "Confirm." A confirmation will appear that you may print. Mellon will also mail you a confirmation.

## Fund Transfers or Change Future Allocations via Toll-Free Phone

You may also make these changes any time on the automated phone system. Follow the prompts provided. Or you may talk to a Mellon Customer Service Representative between 7 a.m. and 6 p.m. mountain time. The automated system and Customer Service Reps are available toll-free at 1-866-ID-PERSI. 